

**SONOMA VALLEY COUNTY  
SANITATION DISTRICT**

Independent Auditor's Reports, Management's  
Discussion and Analysis and Basic  
Financial Statements

For the Year Ended June 30, 2009

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2009**

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Sonoma Valley County  
Sanitation District  
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## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Sonoma Valley County Sanitation District (District), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America

As described in Note C to the basic financial statements, effective July 1, 2008, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we have issued our report dated November 4, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Maciae Neri & O'Connell LLP*

Certified Public Accountants

Sacramento, California

November 4, 2009

## **Management's Discussion and Analysis**

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009**

As management of the Sonoma Valley County Sanitation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the District's financial statements (pages 11 - 14) and the accompanying notes to the basic financial statements (pages 15 - 30).

**Reporting Entity**

The Sonoma Valley County Sanitation District is managed by the Sonoma County Water Agency, which provides administration, engineering, operational and maintenance services. The District is governed by a three-member Board of Directors. The District is considered an integral part of the County of Sonoma's (County) reporting entity, resulting in the District's financial statements being included in the County's annual financial statements.

Please refer to the reporting entity definition within the notes to the financial statements for additional detail.

**Financial Highlights**

*Net Assets*

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$58,385,830 (*net assets*). Of this amount, \$11,818,674 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

*Revenues and Capital Contributions*

The District recognized total revenues of \$10,730,558 during fiscal year 2008/09. Of this amount, \$10,199,024 consists of charges for services (operating revenues), and \$471,777 of nonoperating revenues consisting of investment earnings, property taxes, conservation program, and intergovernmental revenue. The District also recognized capital contributions of \$59,757 from connection fees.

*Expenses*

The District incurred expenses totaling \$11,809,046 during fiscal year 2008/09. \$10,649,687 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses total \$1,159,359 which is comprised of conservation program expenses (\$437,124), interest expense related to the District's long-term debt obligation (\$707,818), and a loss on the disposal of a fixed asset (\$14,417).

*Increase in Net Assets*

The District recorded an operating loss of \$450,663 for fiscal year 2008/09. The District recognized an overall decrease in net assets of \$1,078,488.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Overview of the Financial Statement**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of three components: (1) management's discussion and analysis, (2) financial statements, and (3) notes to the basic financial statements.

*Management's Discussion and Analysis*

*Management's discussion and analysis* is intended to provide the narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of some key data presented in the financial statements.

*Financial Statements*

The District is engaged only in business-type activities. The District accounts for its financial activity utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flow. The financial statements presented are the *statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows*.

*Notes to the Basic Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 15 - 30.

**Financial Analysis**

Net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$58,385,830 at the close of the most recent fiscal year compared to net assets of \$59,464,318 as of June 30, 2008.

The largest portion of the District's net assets (74.0% for fiscal year 2009 compared to 75.4% for 2008) reflects its investment in capital assets (e.g., land and buildings), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

*Condensed Statement of Net Assets*

	June 30, 2008	June 30, 2009	Percentage Change
Current and other assets	\$ 15,555,354	\$ 15,723,615	1.1%
Capital assets	65,727,977	64,375,889	(2.1)%
<b>Total Assets</b>	<b>81,283,331</b>	<b>80,099,504</b>	<b>(1.5)%</b>
Current liabilities	1,588,796	1,498,154	(5.7)%
Noncurrent liabilities	20,230,217	20,215,520	(0.1)%
<b>Total Liabilities</b>	<b>21,819,013</b>	<b>21,713,674</b>	<b>(0.5)%</b>
Invested in capital assets net of related debt	44,829,006	43,184,180	(3.7)%
Restricted for conservation program	1,959,917	1,532,873	(21.8)%
Restricted for debt service	1,637,730	1,850,103	13.0%
Unrestricted	11,037,665	11,818,674	7.1%
<b>Total Net Assets</b>	<b>\$ 59,464,318</b>	<b>\$ 58,385,830</b>	<b>(1.8)%</b>

A portion of the District's net assets \$3,382,976 (5.8% for fiscal year 2009) and \$3,597,647 (6.1% for 2008) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$11,818,674 for 2009 and \$11,037,665 for 2008 may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all categories of net assets.

*Condensed Statement of Changes in Net Assets*

	June 30, 2008	June 30, 2009	Percentage Change
Revenues:			
Operating revenues	\$ 9,650,168	\$10,199,024	5.7%
Nonoperating revenues	640,288	471,777	(26.3)%
<b>Total revenues</b>	<b>10,290,456</b>	<b>10,670,801</b>	<b>3.7%</b>
Expenses:			
Services and supplies	7,099,096	7,571,521	6.6%
Fiscal agent fees and legal services	21,772	39,527	81.5%
Depreciation and amortization	2,502,904	3,038,639	21.4%
Conservation program	153,644	437,124	184.5%
Interest expense	400,687	707,818	76.7%
Loss on transfer of capital assets	2,784,354	-	-
Loss on disposal of capital assets	1,840	14,417	684.0%
<b>Total expenses</b>	<b>12,964,297</b>	<b>11,809,046</b>	<b>(8.9)%</b>



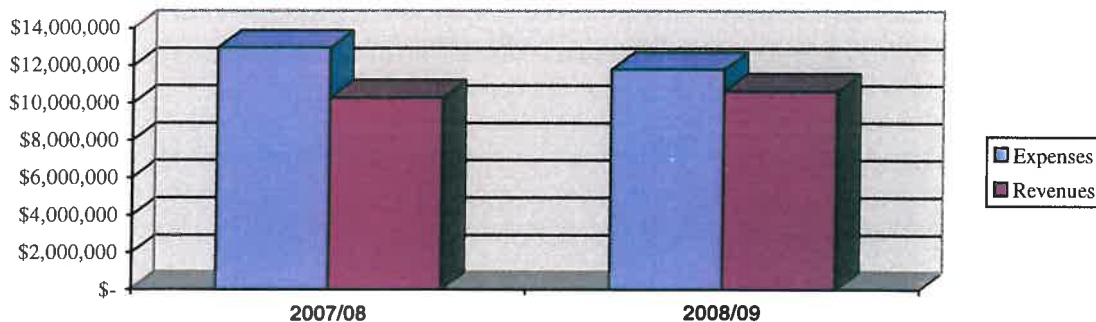
**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

*Condensed Statement of Changes in Net Assets (continued)*

	June 30, 2008	June 30, 2009	Percentage Change
Loss before contributions	(2,673,841)	(1,138,245)	(57.4)%
Capital contributions:			
Connection fees	421,221	59,757	(85.8)%
Increase (decrease) in net assets	(2,252,620)	(1,078,488)	(52.1)%
Net assets - beginning of year	61,716,938	59,464,318	(3.6)%
Net assets - end of year	\$59,464,318	\$58,385,830	(1.8)%

The District's net assets decreased by \$1,078,488 during the year ended June 30, 2009 compared to a decrease of \$2,252,620 for the year ended June 30, 2008.

*Expenses and Revenues*

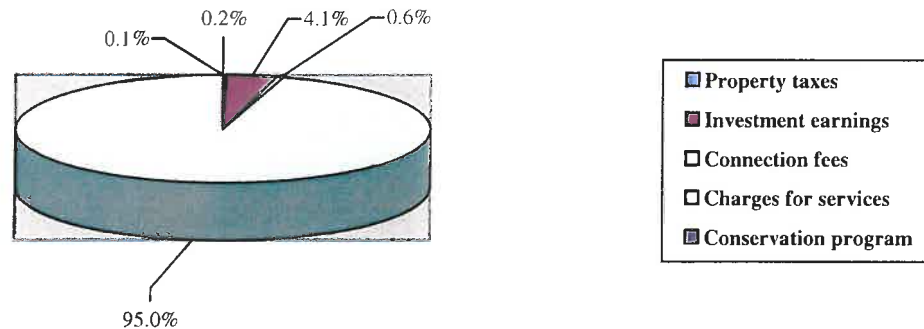


Total revenues of the District for fiscal year 2008/09 totaled \$10,670,801 representing an increase of \$380,345 from the preceding fiscal year revenues of \$10,290,456. The rate based charges for services, representing 95.0% of the District's total revenues, including capital contributions, increased by \$548,856 (5.7%), investment earnings decreased by \$104,164 (19.0%) and conservation program revenue decreased by \$63,225 (86.2%). The District received \$59,757 in capital contributions from connection fees, compared to \$421,221 in 2007/08. The combined effect of these changes was an overall increase in revenues of 3.7%.

Total expenses for the District decreased by \$1,155,251 to \$11,809,046 for fiscal year 2008/09, due primarily to the recognition of a loss on the transfer of the photovoltaic facility to the Water Agency (\$2,784,354) in 2007/08. The decrease in the loss on the transfer was offset by increases in administrative support charges from the Water Agency of \$616,541, water conservation expenses of \$283,480, an increase in depreciation expense of \$535,735, and increases in maintenance related costs of \$287,436. The overall effect of these changes was a decrease in expenses of 8.9%.

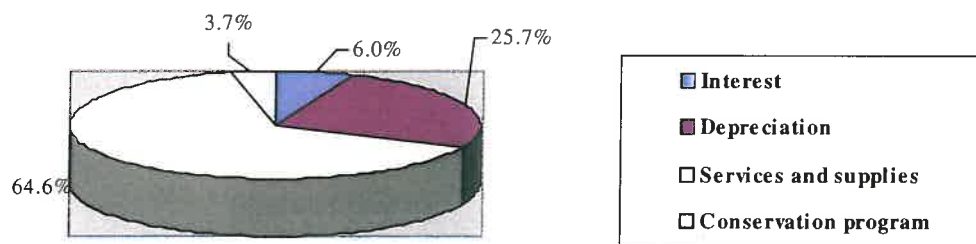
**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

*Revenues and Capital Contributions by Source*



As previously mentioned, revenues collected by the District for 2008/09 totaled \$10,670,801. Of this amount \$10,199,024 or 95.0%, was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. Property tax revenues accounted for 0.2% of annual revenues, and are collected through the tax rolls to satisfy debt service requirements. Investment earnings represent 4.1% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer. Conservation program revenues accounted for 0.1% of the District's 2008/09 revenues. The District also recognized \$59,757 in capital contributions related to connection fees, which are collected through the permitting process.

*Expenses by Function*



Expenses for the District for fiscal year 2008/09 totaled \$11,809,046. Costs associated with the collection, treatment, and disposal of effluent represent 64.6% of the District's costs. Annual depreciation expense on capital assets and represents \$3,038,639 (25.7%) of total expenses. Interest expense totaling \$707,818 (6.0%) represents the cost of meeting current debt service obligations. Conservation program expenses totaled \$437,124 (3.7%) for fiscal year 2008/09.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Capital Asset and Debt Administration**

*Capital Assets*

The District's investment in capital assets as of June 30, 2009, amounts to \$64,375,889 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, and construction in progress.

Major capital asset activity during the fiscal year included:

- Treatment plant upgrade
- R4 Pump

*Sonoma Valley County Sanitation District's Capital Assets*

	June 30, 2008	June 30, 2009	Percentage Change
Land	\$ 3,110,943	\$ 3,395,194	9.1%
Buildings and improvements	92,065,677	92,696,659	0.7%
Machinery and equipment	221,045	165,940	(24.9)%
Construction in progress	2,619,311	3,348,454	27.8%
Accumulated depreciation	(32,288,999)	(35,230,358)	9.1%
<b>Total</b>	<b>\$65,727,977</b>	<b>\$64,735,889</b>	<b>(2.1)%</b>

Additional information on the District's capital assets can be found in Note E on page 23 of the financial statement footnotes.

*Long-term Debt*

At the end of the current fiscal year, the District had a total of \$21,191,709 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$101,000 comprises debt backed by the full faith and credit of the District, \$14,058,844 in special obligations of the District payable solely from net revenues of District operations, and \$7,031,865 is related to advances from the State Water Resources Control Board.

*Sonoma Valley County Sanitation District's Outstanding Current and Long Term Debt*

	June 30, 2008	June 30, 2009	Percentage Change
General obligation bonds	\$ 113,000	\$ 101,000	(10.6)%
Revenue bonds	14,686,075	14,058,844	(4.3)%
Advances from other governments	6,099,895	7,031,865	15.3%
<b>Total</b>	<b>\$ 20,898,970</b>	<b>\$21,191,709</b>	<b>1.4%</b>

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

The District's total debt increased by \$292,739 during the current fiscal year.

Advances from other governments increased by \$931,970 due to the receipt of \$1,210,174 from the State Water Resources Control Board (SWRCB) towards the District's Treatment Plant Upgrade project. This increase was offset by the annual repayment of the existing outfall line advance received from the State Water Resources Control Board in the amount of \$41,275, along with a principal payment on the Treatment Plant Upgrade loan of \$247,600. Per the loan agreement with the SWRCB, unpaid accrued interest on the loan totaling \$10,671 was added to the outstanding principal balance of the loan in 2008-09.

Decreases in both general obligation bonds and revenue bonds are due to annual principal payments on the outstanding debt.

Additional information on the District's current and long-term debt can be found in Notes F and G on pages 24 - 27 of this report.

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for fiscal year 2009/10 has increased by \$12,868,574 (59.2%) for a total of \$34,605,190. The major component of the increase in budgeted expenses is related to increases in capital project expenses. The increase in Operations is due to the anticipated receipt of bond proceeds and the subsequent transfer of these proceeds to the Construction fund towards the Napa/Sonoma Salt Marsh Project.

Following is a comparison of final 2008/09 and proposed 2009/10 budgeted expenses for the District:

	2008/09	2009/10	Increase (Decrease)	Percentage Change
Operations	\$15,669,177	\$24,478,514	\$ 8,809,337	56.2%
Debt service - general obligation bonds	5,702	5,102	(600)	(10.5)%
Debt service - revenue bonds	703,270	683,041	(20,229)	(2.9)%
Debt service - outfall line	8,458	7,345	(1,113)	(13.2)%
Construction	3,978,907	9,279,598	5,300,691	133.2%
State Revolving Fund Loan	1,371,102	151,590	(1,219,512)	(88.9)%
	\$21,736,616	\$34,605,190	\$12,868,574	59.2%

Budgeted expenses for fiscal year 2008/09 differ in several instances from the budgeted expenses presented in the management's discussion and analysis for the period ending June 30, 2008. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the 2008/09 audited basic financial statements.

The sewer service fees were increased by 6.0% for the 2009-2010 budget year.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

The following tables indicate the sanitation sewer service rates and equivalent single dwellings for the District.

*Rate per Equivalent Single-Family Dwelling*

	2008/09	2009/10	Percentage Change
	\$618	\$655	6.0 %

*Number of Equivalent Single-Family Dwellings by District*

	2008/09	2009/10	Percentage Change
	17,279	17,279	0.0%

**Request for Additional Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller Treasurer Tax Collector's Office, ATTN. Fiscal Division, 585 Fiscal Drive, Room 100, Santa Rosa, CA, 95403.

## **Basic Financial Statements**

**SONOMA VALLEY COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

**ASSETS**

Current assets:

Cash and investments	\$ 6,236,204
Accounts receivable	629,911
Due from Sonoma County Water Agency	388,845
Restricted cash and investments	
Conservation program	1,532,873
General obligation bond fund	7,521
Revenue bond fund	1,493,393
Debt service	588,543
Loan reserve fund	70,908

Total current assets	10,948,198
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Noncurrent assets

Advances to Sonoma County Water Agency	4,322,755
Deposits with others	228,900
Other assets	223,762
Capital assets:	
Land	3,395,194
Construction in progress	3,348,454
Buildings and improvements	92,696,659
Machinery and equipment	165,940
Less accumulated depreciation	(35,230,358)

Total capital assets (net of accumulated depreciation)	64,375,889
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Total noncurrent assets	69,151,306
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Total assets	80,099,504
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**LIABILITIES**

Current liabilities

Accounts payable and accrued expenses	211,703
Due to other governments	333,958
Accrued interest payable	108,402

Total current liabilities	654,063
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Current liabilities payable from restricted assets:

Revenue bonds payable	642,231
Accrued interest payable	201,860

Total current liabilities payable from restricted assets	844,091
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Noncurrent liabilities

General obligation bonds payable	101,000
Revenue bonds payable	13,416,613
Advances from other governments	6,697,907

Total noncurrent liabilities	20,215,520
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Total liabilities	21,713,674
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**NET ASSETS**

Invested in capital assets, net of related debt	43,184,180
Restricted for conservation	1,532,873
Restricted for debt service	1,850,103
Unrestricted	11,818,674

Total net assets	\$ 58,385,830
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The accompanying notes are an integral part of these financial statements.

**SONOMA VALLEY COUNTY SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<b>Operating revenues</b>	
Flat charges	\$ 9,287,070
Charges for services	898,568
Other	13,386
<b>Total operating revenues</b>	<b>10,199,024</b>
<b>Operating expenses</b>	
Services and supplies	7,571,521
Fiscal agent fees and legal services	39,527
Depreciation and amortization	3,038,639
<b>Total operating expenses</b>	<b>10,649,687</b>
<b>Operating loss</b>	<b>(450,663)</b>
<b>Nonoperating revenues (expenses)</b>	
Investment earnings	444,007
Interest expense	(707,818)
Intergovernmental	133
Property taxes	17,557
Loss on disposal of capital assets	(14,417)
Conservation program revenue	10,080
Conservation program expense	(437,124)
<b>Total nonoperating revenues (expenses)</b>	<b>(687,582)</b>
<b>Loss before capital contributions</b>	<b>(1,138,245)</b>
Capital contributions:	
Connection fees	59,757
<b>Decrease in net assets</b>	<b>(1,078,488)</b>
<b>Net assets - beginning of year</b>	<b>59,464,318</b>
<b>Net assets - end of year</b>	<b>\$ 58,385,830</b>

The accompanying notes are an integral part of these financial statements.



**SONOMA VALLEY COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 10,071,795
Payments for interfund services used	(6,076,321)
Payments to suppliers	(1,681,701)
Other payments	(228,900)

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Net cash provided by operating activities	2,084,873
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**CASH FLOWS FROM NONCAPITAL FINANCING  
ACTIVITIES**

Taxes	17,557
Intergovernmental revenue	133
Conservation program	(427,044)

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Net cash used by noncapital financing activities	(409,354)
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**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Purchase of capital assets	(1,830,695)
Proceeds from State loan - advances from other governments	1,210,174
Loan principal payments - advances from other governments	(288,875)
Principal payments - bonds	(702,000)
Interest paid on capital debt	(742,855)
Proceeds from sale of capital asset	6,982
Connection fees	59,757

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Net cash used by capital and related financing activities	(2,287,512)
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Loan repayment from Sonoma County Water Agency - principal	373,178
Loan repayment from Sonoma County Water Agency - interest	213,459
Interest received on pooled cash and investments	230,548

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Net cash provided by investing activities	817,185
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Net increase in cash and cash equivalents	205,192
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Cash and cash equivalents - beginning of year	9,724,250
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Cash and cash equivalents - end of year	\$ 9,929,442
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**Reconciliation to the statement of net assets**

Cash and investments	\$ 6,236,204
Restricted cash and investments	3,693,238

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Cash and cash equivalents	\$ 9,929,442
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The accompanying notes are an integral part of these financial statements.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**RECONCILIATION OF OPERATING LOSS TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating loss	\$ (450,663)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	3,038,639
Change in assets and liabilities:	
Increase in deposits with others	(228,900)
Increase in accounts receivable	(127,229)
Decrease in accounts payable and accrued expenses	(146,974)
<u>Net cash provided by operating activities</u>	<u>\$ 2,084,873</u>

The accompanying notes are an integral part of these financial statements.

## **Notes to the Basic Financial Statements**

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note A.      Defining the Financial Reporting Entity**

The Sonoma Valley County Sanitation District (the District) is managed by the Sonoma County Water Agency (the Water Agency), which provides engineering, administration, operational, and maintenance services. The District is responsible for maintaining and operating the local sanitation collection systems, pump stations, and treatment plants. The District has an ordinance defining policies, including user fees.

*Component Unit Reporting*

The District is governed by a three member board, including two members of the Board of Supervisors (Board) of the County of Sonoma (the County). The exercise of this oversight responsibility causes the District to be an integral part of the County's reporting entity. Therefore, the District's financial statements have also been included in the County's annual financial statements.

**Note B.      Summary of Significant Accounting Policies**

The District conforms to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. A summary of significant accounting policies is included below:

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The District uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note B.      Summary of Significant Accounting Policies (Continued)**

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)*

The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. Governments have the option of following private-sector guidance issued subsequent to November 30, 1989, as such, the District has elected not to follow private-sector guidance subsequent to November 30, 1989.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are flat charges and charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources, first, then unrestricted resources as they are needed.

*Cash and Investments*

The District's cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

The District applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the statement of net assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has reported its investment in the Treasury Pool at fair value.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note B.      Summary of Significant Accounting Policies (Continued)**

*Cash and Investments (Continued)*

The District applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment to GASB Statement No. 3, which requires governmental entities to provide proper disclosures on common deposit and investment risk related to credit risk, interest rate risk and custodial credit risk.

For purposes of the statement of cash flows, the District considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also considered cash and cash equivalents.

*Accounts Receivable*

Accounts receivable consists of uncollected fees for sanitation services and flat charges as of June 30, 2009. These flat charges are established annually by the Board and billed through the County's property tax system.

*Other Assets*

Other assets represent bond issuance costs of \$223,762 as of June 30, 2009, net of accumulated amortization. These costs are amortized using the straight-line method over the term of the outstanding bonds. Amortization expense for the year ended June 30, 2009 related to the bond issuance costs was \$19,882.

*Deposits with Others*

Deposits with others represents cash on deposit with the Sonoma County Superior Court towards eminent domain proceedings related to the District's Sewer Trunk Main replacement project.

*Restricted Assets*

Restricted assets represent cash and investments maintained in accordance with bond resolutions or by agreement, for the purpose of funding certain debt service payments, rebate programs and improvements and extensions to the wastewater treatment systems.

*Capital Assets*

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note B.      Summary of Significant Accounting Policies (Continued)**

*Capital Assets (Continued)*

The costs of normal maintenance and repairs that do not add to the value or materially extend the useful life of the assets, are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

*Bond Issuance Discount and Deferred Amount on Refunding*

Revenue bond discounts are deferred and amortized using the straight-line method over the term of the outstanding bonds. Bond discounts reduce the carrying value of the related long-term debt. The deferred amount on refunding of revenue bonds, results from the difference between the carrying amount of defeased/refunded debt and its reacquisition price. Deferred amounts on refunding are amortized over the remaining life of the refunded debt or the remaining life of the newly issued debt, whichever is shorter. The unamortized portion of the deferred amount on refunding is reported as a direct reduction or addition to the carrying amount of the refunding debt.

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

*Budget and Budgetary Accounting*

The Board of Directors adopts a budget annually to be effective July 1<sup>st</sup> for the ensuing fiscal year for the District. The general manager of the Water Agency is authorized to transfer budgeted amounts within any District except for transfers between the major expense classes or transfers between capital assets and operating expenses. Such transfers require approval by the County Administrator and/or the Board of Directors.

*Property Tax Revenue*

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the District.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note B.      Summary of Significant Accounting Policies (Continued)**

*Property Tax Revenue (Continued)*

The County has adopted the Alternative Method of Property Tax Allocation known as the Teeter Plan. The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the District each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to the County.

Property taxes are recognized as revenue when they are levied. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's annual financial statements.

*Intergovernmental Transactions*

Intergovernmental transactions made during the year are primarily charges for services rendered or facilities provided.

*Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note C.      Implementation of New Governmental Accounting Standards**

Effective July 1, 2008 the District implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, that a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired.

There was no impact on the District's financial statements for the year ended June 30, 2009 as a result of the implementation of GASB Statement No. 49.



**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note D.      Cash and Investments**

The District follows the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly based on the average daily balances of the District during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the District.

*Investment Guidelines*

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and notes issued by local agencies
- Registered state warrants and municipal notes and bonds
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Securities lending agreements
- Money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint power agreements

A copy of the County Investment Policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403.

Cash and investments included the following:

	Fair Value
Cash and investments in County Treasury Pool	\$ 9,912,168
Cash and investments with trustee	17,274
<b>Total Cash and Investments</b>	<b>\$ 9,929,442</b>

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note D. Cash and Investments (Continued)**

As of June 30, 2009, the District's investments in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, had a weighted average to maturity of 265 days.

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations. The majority of the District's cash and investments is held in the Treasury Pool. As of June 30, 2009, \$17,274 of the District's investments were held by a trustee and invested in a money market mutual fund with a weighted average to maturity of 46 days as of June 30, 2009.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of the year end for each investment type. The credit rating and other information regarding the Treasury Pool for the year 2008/09 are disclosed in the County's 2008/2009 Comprehensive Annual Financial Report.

Investment Type	Total	Minimum Legal Rating	Credit Rating at Year-End
Held by trustee:			
Money market mutual funds	\$ 17,274	AAA	AAA

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note D.      Cash and Investments (Continued)**

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk. As of June 30, 2009, all of the District's investments were in the County Treasury Pool or in money market mutual funds and, are therefore, not exposed to custodial credit risk.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note E. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	July 1, 2008	Additions	Retirements	Transfers	June 30, 2009
Capital assets, not being depreciated:					
Land	\$ 3,110,943	\$ 8,133	\$ -	\$ 276,118	\$3,395,194
Construction in progress	2,619,311	1,656,450	(20,207)	(907,100)	3,348,454
Total capital assets, not being depreciated	5,730,254	1,664,583	(20,207)	(630,982)	6,743,648
Capital assets, being depreciated:					
Buildings and improvements	92,065,677	-	-	630,982	92,696,659
Machinery and equipment	221,045	23,487	(78,592)	-	165,940
Total capital assets being depreciated	92,286,722	23,487	(78,592)	630,982	92,862,599
Less accumulated depreciation for:					
Buildings and improvements	(32,100,917)	(3,007,809)	-	-	(35,108,726)
Machinery and equipment	(188,082)	(10,948)	77,398	-	(121,632)
Total accumulated depreciation	(32,288,999)	(3,018,757)	77,398	-	(35,230,358)
Total capital assets, being depreciated, net	59,997,723	(2,995,270)	(1,194)	630,982	57,632,241
Total capital assets, net	\$ 65,727,977	\$ (1,330,687)	\$ (21,401)	\$ -	\$64,375,889

Depreciation expense amounted to \$3,018,757 for the year ended June 30, 2009.

The total amount of interest capitalized in connection with wastewater treatment facilities construction projects during the year ended June 30, 2009 amounted to \$123,140.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note F.      Advances to Sonoma County Water Agency**

During the 2007/08 year, the District transferred ownership of its photovoltaic facility to the Sonoma County Water Agency (SCWA). Book value of the facility at the time of the transfer was \$8,227,276. Terms of the transfer agreement included a contribution to SCWA in the amount of \$2,784,354 along with a loan totaling \$5,442,922. The term of the loan is 12 years, with the final payment due in 2019, at an interest rate of 4.198%. The total outstanding amount of the loan as of June 30, 2009 is \$4,711,600. The current portion of the long-term receivable from the Water Agency in the amount of \$388,845 is reported as due from Sonoma County Water Agency in the statement of net assets.

**Note G.      Long-Term Obligations**

*Advances From Other Governments*

During the 1994/95 year, the District received a loan of \$760,992 from the State Water Resources Control Board for an outfall rehabilitation project. As of June 30, 2009, the outstanding balance is \$271,963. The loan is a State Revolving Loan with current payments of \$49,710, payable annually in July. The expected term is 20 years at an annual interest rate of 2.7% with the last payment scheduled for July 2014.

Annual debt service requirements to maturity for this revolving loan is as follows:

Year ending June 30,	Principal	Interest
2010	\$ 42,367	\$ 7,343
2011	43,511	6,199
2012	44,686	5,024
2013	45,902	3,808
2014	47,131	2,578
2015	48,366	1,306
<b>Total</b>	<b>\$ 271,963</b>	<b>\$ 26,258</b>

During the 2008/09 year, the District received the final disbursement from the State Water Resources Control Board for the Tertiary Treatment Plant Upgrade project in the amount of \$1,210,174. The total amount received for the loan was \$6,996,831. During 2008/09 accrued interest on the unpaid balance of the loan in the amount of \$10,671 was added to the principal balance. The loan is a State Revolving Loan, with current payments of \$443,180, payable annually beginning in November 2009. The District made an initial payment in November 2008 totaling \$363,841. The outstanding balance as of June 30, 2009 is \$6,759,902. The term is 20 years at an annual interest rate of 2.3% with the last payment currently scheduled for the year ended 2027/2028.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note G. Long-Term Obligations (Continued)**

Annual debt service requirements to maturity for the revolving loan are as follows:

Year ending June 30,	Principal	Interest
2010	\$ 291,591	\$ 151,589
2011	294,409	148,771
2012	301,180	142,000
2013	308,107	135,073
2014	315,194	127,986
2015-2019	1,688,102	527,796
2020-2024	1,891,372	324,527
2025-2028	1,669,947	96,915
<b>Total</b>	<b>\$ 6,759,902</b>	<b>\$ 1,654,657</b>

*General Obligation Bonds*

General obligation bonds are direct obligations and pledged by the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2009 were \$101,000, with interest rates ranging from 4% to 5%.

Annual debt service requirements to maturity for the general obligation bonds are as follows:

Year ending June 30,	Principal	Interest
2010	\$ -	\$ 4,750
2011	12,000	4,125
2012	13,000	3,450
2013	14,000	2,750
2014	14,000	2,025
2015 – 2017	48,000	1,675
<b>Total</b>	<b>\$ 101,000</b>	<b>\$ 18,775</b>

The District also issued bonds where the revenue derived from charges for services are pledged to pay for the debt service.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note G. Long-Term Obligations (Continued)**

*Revenue Bonds*

On September 7, 2005, the District, through the California Statewide Communities Development Authority, issued \$10,240,000 in Water and Wastewater Revenue Bonds (Series 2005C) for the purpose of partially refinancing the outstanding 1998 Special Revenue Bonds, which were initially issued to finance various treatment plant upgrades within the District. The bonds are payable from net revenues through 2024. Annual principal and interest payments are expected to require no more than 42% of net revenues. The total principal and interest outstanding on the 1998 Special Revenue Bonds and Series 2005C Revenue Bonds as of June 30, 2009 is \$14,715,000 and \$5,502,615. Principal and interest paid for the year ended June 30, 2009 and total customer net revenues were \$1,297,703 and \$3,119,510, respectively. Total amounts outstanding and terms of the 1998 Special Revenue Bonds and Series 2005C Revenue Bonds are as follows:

	Interest Rates	Maturity Date	Amount
1998 Special Revenue Bonds	4.00% - 5.10%	August 1, 2023	\$6,460,000
Series 2005C Revenue Bonds	2.70% - 4.05%	October 1, 2018	8,255,000

The total revenue bonds outstanding as of June 30, 2009 was \$14,715,000, with interest rates ranging from 2.70% to 5.10%.

Debt service requirements to maturity for the Revenue Bonds are as follows:

Year ending June 30,	Principal	Interest
2010	\$ 705,000	\$ 592,298
2011	730,000	570,043
2012	755,000	545,905
2013	775,000	520,273
2014	805,000	493,010
2015 – 2019	4,485,000	1,985,461
2020 – 2024	6,460,000	795,625
<b>Total</b>	<b>\$14,715,000</b>	<b>\$5,502,615</b>

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note G. Long-Term Obligations (continued)**

*Changes in Long-Term Obligations*

Long-term obligations activity for the year ended June 30, 2009 was as follows:

	July 1, 2008	Additions	Reductions	June 30, 2009	Due Within One Year
Advances from other governments	\$6,099,895	\$1,220,845	\$(288,875)	\$7,031,865	\$333,958
<u>General obligation bonds</u>	<u>113,000</u>	<u>-</u>	<u>(12,000)</u>	<u>101,000</u>	<u>-</u>
Revenue bonds	15,405,000	-	(690,000)	14,715,000	705,000
Less deferred amounts for:					
Original issue discount	(148,551)	-	10,917	(137,634)	(10,917)
Deferred amount on refunding	(570,373)	-	51,852	(518,521)	(51,852)
Total revenue bonds payable	14,686,076	-	(627,231)	14,058,845	642,231
<b>Total</b>	<b>\$ 20,898,971</b>	<b>\$1,220,845</b>	<b>\$(928,106)</b>	<b>\$21,191,710</b>	<b>\$976,459</b>

**Note H. Debt Defeasance**

In September 2005, the District, through the Water Agency and the California Statewide Communities Development Authority, issued Water and Wastewater Revenue Bonds (Series 2005C) totaling \$10,240,000. The proceeds of the bonds were used to purchase U.S. government securities, which were deposited into an irrevocable trust with an escrow agent to advance refund the District's outstanding 1998 Special Revenue Bonds totaling \$11,095,000. As a result, the 1998 Special Revenue Bonds are considered defeased and the related liability is not reported in the District's financial statements. During the year ended June 30, 2009 the remaining outstanding balance of defeased bonds in the amount of \$9,790,000 were retired.

**Note I. Accrued Interest Payable**

Interest payable consists of interest accrued on the following obligations:

Advances from other governments	\$ 108,402
Long-term bonds	201,860
<b>Total accrued interest payable</b>	<b>\$ 310,262</b>



**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note J.      Related Party Transactions**

The District is a special district under the Board of Supervisors, and as such, has similar board members as the County. Both the District and the Water Agency are component units of the County, and therefore, are considered related parties.

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its effectiveness. The District paid \$4,391,241 to the Water Agency for administrative support during the year ended June 30, 2009.

**Note K.      Commitments and Contingencies**

*Commitments*

The District has active construction projects as of June 30, 2009. The projects include expansion and/or improvements of wastewater treatment facilities. At year end, the District's commitments to construction projects included \$3,348,454 of amounts spent to date with remaining commitments of \$149,954 for expansion.

The balances spent to date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for wastewater treatment facilities are being financed by revenue bonds secured by wastewater revenues and by net assets.

*Pending Litigation, Claims, and Assessments*

*Other Regulatory Matters*

The District is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the District, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The District is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note L. Risk Management**

The District is covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The District is covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the

California State Association of Counties, Excess Insurance Authority (CSAC-EIA) and Excess Liability Program. Limits of this coverage are \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$10,000,000 and a \$25,000 deductible.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are \$600,000,000 per occurrence including flood and \$80,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

The District pays an annual premium to the County for this insurance coverage. Settled claims have not exceeded this coverage for any of the past three fiscal years.

**Note M. Recent Governmental Accounting Standards**

The Governmental Accounting Standard Board (GASB) has released the following new standard:

Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*, issued in June 2007. This statement establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies in the accounting and financial reporting of such assets among state and local governments. This statement also provides authoritative guidance that specifically addresses the nature of the intangible assets including internally generated intangible assets. GASB Statement No. 51 is effective for financial statements for fiscal years beginning after June 15, 2009.

Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, issued in June 2008. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB Statement No. 53 is effective for financial statements for fiscal years beginning after June 15, 2009.

**SONOMA VALLEY COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

**Note M.      Recent Governmental Accounting Standards (Continued)**

The impact on the basic financial statements of the District of these pronouncements which have been issued, but not yet adopted, is anticipated to be minimal.

## **Other Report**



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SAN MARCOS

SAN DIEGO

Board of Directors  
Sonoma Valley County Sanitation District  
Santa Rosa, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the basic financial statements of Sonoma Valley County Sanitation District (District) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 4, 2009. Our report contained explanatory language describing the District's implementation of a new accounting standard, which was effective July 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors and District management and is not intended to be and should not be used by anyone other than these specified parties.

*Maclean Mini & O'Connell LLP*

Certified Public Accountants

Sacramento, California  
November 4, 2009